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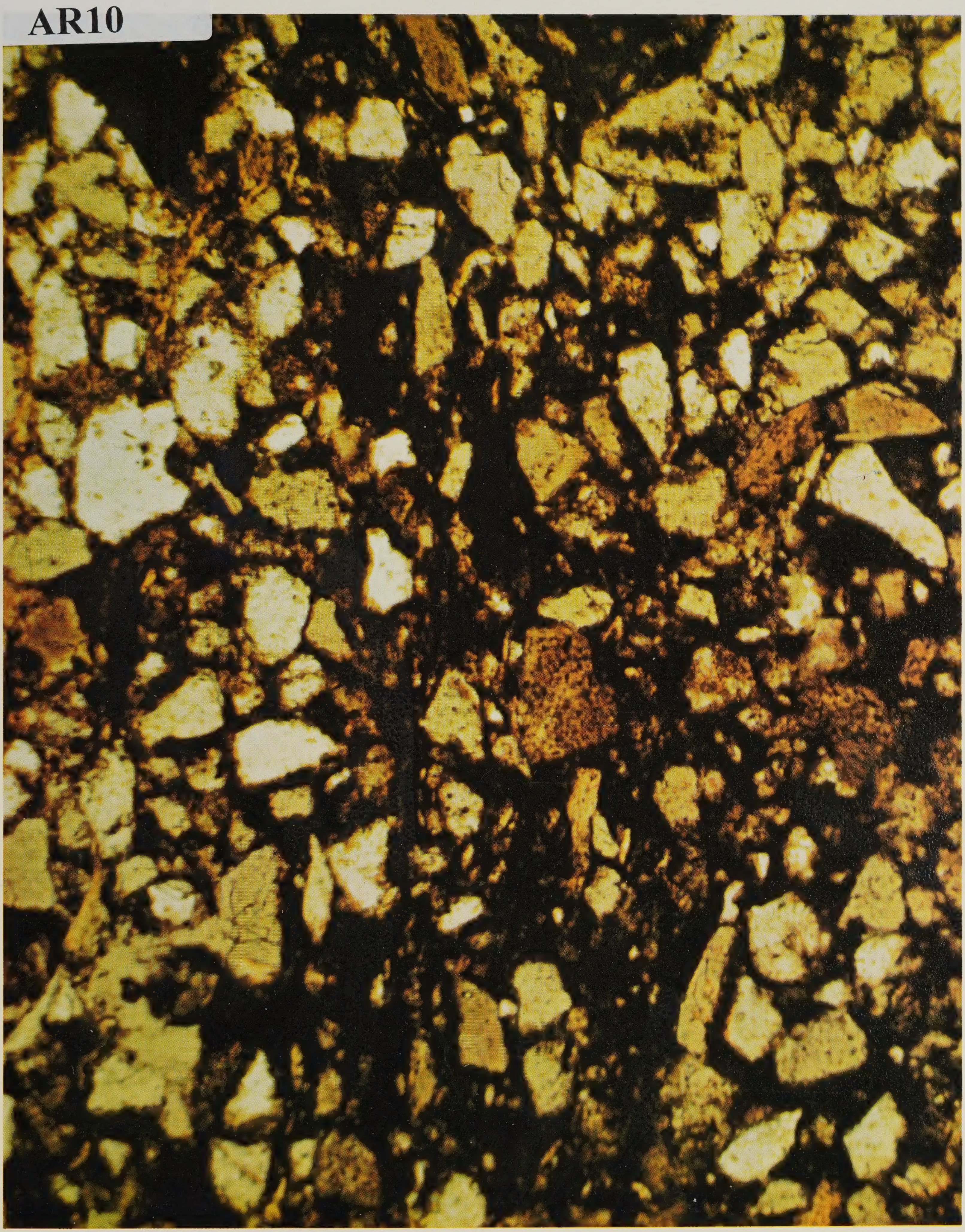


KENTING LIMITED

ANNUAL REPORT TO SHAREHOLDERS 1973

KENTING LIMITED

3rd Floor, 700 - 6th Avenue S.W., Calgary, Alberta, T2P 0T8, Telephone: (403) 263-2980, TELEX: 03-824542

CORPORATE PROFILE:

Kenting is a technical group of Canadian service companies engaged in the identification of natural and human resources.

KENTING AVIATION DIVISION

Resolute Bay, N.W.T. X0A 0V0
Telephone: (819) 252-3849

Hangar No. 3, Calgary International Airport
Calgary, Alberta, T2P 2G3
Telephone: (403) 277-8526
TELEX: 03-821732

KENTING OILFIELD SERVICES DIVISION

P.O. Box 4506
Edmonton, Alberta, T6E 4T7
Telephone: (403) 465-5276

3rd Floor, 700 - 6th Avenue S.W.
Calgary, Alberta, T2P 0T8
Telephone: (403) 263-4970

TECHNICAL ENTERPRISE DIVISION

6328 - 104 Street
Edmonton, Alberta, T6H 2K9
Telephone: (403) 434-3421

KENTING PETROLIA DRILLING DIVISION

3rd Floor, 700 - 6th Avenue S.W.
Calgary, Alberta, T2P 0T8
Telephone: (403) 263-2980
TELEX: 03-824542

P.O. Box 5644, Station "L"
Edmonton, Alberta, T6C 4G1
Telephone: (403) 469-1361

KENTING BIG INDIAN DRILLING DIVISION

4636 - 1st Street S.E.
Calgary, Alberta, T2G 2L3
Telephone: (403) 287-1460
TELEX: 03-822784

KENTING KLONDIKE HELICOPTERS DIVISION

Hangar No. 3, Calgary International Airport
Calgary, Alberta, T2P 2G3
Telephone: (403) 277-8526
TELEX: 03-821732

KENTING EARTH SCIENCES DIVISION

380 Hunt Club Road
Ottawa, Ontario, K1G 3N3
Telephone: (613) 521-1630

1323 - 48th Avenue N.E.
Calgary, Alberta, T2E 5T4
Telephone: (403) 277-8556
TELEX: 053-4173

248 Lesmill Road
Don Mills, Ontario, M3B 2T5
Telephone: (416) 445-9716

Suite 1206, 330 Bay Street
Toronto, Ontario, M5H 2S8
Telephone: (416) 361-0452

P.O. Box 14272
Nairobi, Kenya, Africa

KENTING AFRICA RESOURCE SERVICES DIVISION

53 Lawson Street
P.O. Box 1658
Lagos, Nigeria, Africa
Telephone: 25927:27295

KENTING EXPLORATION SERVICES DIVISION

(Incorporating KenQuest Exploration and Kenting Petroleum Geophysics)
524 - 11th Avenue S.W.
Calgary, Alberta, T2R 0C8
Telephone: (403) 263-1701
TELEX: 03-822630

Letter to the Shareholders

In the past year Canada's conventional crude oil reserves continued to decline. In view of the international oil situation it seems reasonable to expect a high level of activity in traditional oil and gas exploration and an increased development rate of alternate energy sources, such as uranium, coal and tar sands.

In the years to come, Kenting anticipates a strong demand for the broad range of services which it provides to the resource industry.

Operating results have not been satisfactory in the past and the following steps have therefore been taken to improve the corporation's performance:

1 More effective budgeting and financial controls have been implemented. Reporting systems have been improved and are now more useful to all levels of management.

2 Central and divisional management responsibilities have been more clearly defined.

3 Communication between various levels of management has been improved.

4 Executive staff has been reduced in order to increase management flexibility and to lower administration costs.

In 1973, the strong performance achieved by some divisions was negated by losses in other operational areas.

Petrolia Drilling, recording excellent operating results in both Canada and the United Kingdom, made a substantial contribution to overall income.

Exploration Services, our seismic and data sales division, performed adequately and capitalized on a strong land seismic market.

Our construction and pipelining division, Oilfield Services, improved markedly in the last quarter and showed positive, although less than expected, results.

Klondike Helicopters did not meet its objectives, but it performed well in relation to the poor market existing in Western Canada.

Kenting Aviation's operating results were disappointing. In order to improve the situation, the Toronto base was closed and marginal services including the jet charter service, aircraft management contracts and fixed wing fire suppression have been discontinued. The division now operates from the permanent Resolute Bay hangar complex while logistic and administrative support is provided through Klondike's Calgary facility. These changes offer the distinct advantages of reducing administration costs and providing better access to the Arctic, also a major operations area for Klondike. The division is now better able to serve the majority of its clients who are Calgary based. The reduction in fixed costs resulting from this reorganization should result in substantially improved returns in 1974.

The performance of Kenting Earth Sciences, our Ottawa based aerial survey, mapping and geophysical division has been unsatisfactory. Revised cost accounting procedures have identified the problem areas. Division and corporate management are actively pursuing solutions to these difficulties.

Our Nigerian subsidiary, Kenting Africa Resource Services, while only marginally profitable to date provides a base for the expansion of our services into the growing African market and also generates a large volume of work for Kenting Earth Sciences. Nigerian working capital requirements have been met through the extension of credit by Earth Sciences. Delays in collecting accounts receivable and obtaining approval for the repatriation of Nigerian funds to Canada have resulted in Nigerian working capital reaching an amount of $1,113,000 at December 31, 1973. We believe that once this situation is normalized this amount will be reduced to approximately $700,000. Since Nigeria is a developing nation, strong controls are understandably maintained on the export of currency. In the past quarter, we have gained valuable experience in Nigeria and now have a better understanding of Nigerian exchange control policies through discussions with Nigerian Government officials. These actions have resulted in repatriation of $276,000 in the first three months of 1974. We are confident that additional applications for repatriation of funds will be favourably received thereby allowing Kenting's activities in this important market to continue.

The programme to increase Kenting's working capital commenced in the last half of 1973 was successful. The rights issue of November 1973, resulted in the issuance of 221,119 common shares and generated $1,061,000. Sales of marginally productive assets realized an additional $630,000.

In assessing our future, there appears to be a strengthening market for both land and airborne geophysical exploration. Drilling activity will continue at a high level. Petrolia's drilling operations in the United Kingdom have been successful and mobilization of a second rig for that market is under consideration. Pipeline and oilfield construction activities should increase as should construction and drilling related to the tar sands. Markets for helicopters and fixed wing aircraft appear to be improving. We are confident that Kenting, with its capabilities in all these markets, is in a good position to provide the services required by its clients.

Sincere thanks are extended to all Kenting employees for their efforts on behalf of the company during the year.

On behalf of the Board of Directors,

A. Vanden Brink,
President.

Directors

J.C. ANDERSON
President
Allied Equipment Ltd. Calgary

S.W. ARMSTRONG
President
Canam Holdings Ltd. Calgary

A.C. JOHNSON
Retired Executive
Canadian Imperial Bank
of Commerce Calgary

J. R. McCAIG
President and Chief Executive Officer
Trimac Limited Calgary

D.D.C. McGEACHY
Corporate Director London, Ontario

D.A. McINTOSH
Partner
Fraser & Beatty Toronto

A.E. PALLISTER
Vice President, Science and Development
Kenting Limited Calgary

P.R. SANDWELL
Chairman
Sandwell and Company Limited
Vancouver

J. A. SCRYMGEOUR
Chairman of the Board
Westburne International Industries Ltd.

A. VANDEN BRINK
President
Kenting Limited Calgary

Cover Photos

THE OIL SANDS

FRONT:

Photomicrograph of fine-grained oil sand wholly cemented by bitumen. Magnification is X180.

BACK:

Photomicrograph of sandstone showing cross section of a gastropod (snail) shell embedded in clay and the mineral siderite. Bitumen is the shiny dark material on the right hand side. Magnification is X70.

Both photographs courtesy of the Earth Sciences Branch, Research Council of Alberta.

Officers

A. VANDEN BRINK
President

T.A. JONES
Vice President, Finance

A.E. PALLISTER
Vice President,
Science and Development

K.C. GROGAN
Secretary Treasurer

J.F. MOORE
Assistant Secretary

G.W. OWEN
Assistant Secretary

Transfer Agents

Royal Trust Co.

Auditors

Price Waterhouse & Co.

Solicitors

Fraser & Beatty - Toronto
Harradence and Company - Calgary

Stock Exchange Listing

Toronto Stock Exchange.

Glossary of Resource Terms

BARREL OF OIL 35 imperial gallons of crude oil from which are derived approximately 11 gallons of gasoline, plus heating oils, heavy fuel oil, diesel oil, aviation fuels and petrochemical feedstocks.

DOGHOUSE field office adjacent to the derrick floor of a drilling rig where records, logs and certain recording devices are located.

FIELD GATE BATTERY central oilfield production facility - including tankage, pipeline connection and compressor for handling of gas produced with the oil.

GATHERING SYSTEM a complex of gas or oil lines leading from individual wells to a compressor or pumping station which gathers the production for transmission into larger lines leading eventually to a large "trunk" line or storage facility.

GEOTHERMICS general term for the study of the earth's natural heat systems be they hot water (hydrothermal) or hot rocks.

GRAVIMETRICS a geophysical method measuring the changes in the earth's gravitational field which may be caused by mineral or petroleum bearing structures. The instrument employed is a gravimeter or gravity meter.

MAGNETICS a geophysical method measuring the natural magnetic field, disturbances in which may be caused by geology favourable to the occurrence of petroleum or minerals. The instrument employed is a magnetometer.

RESERVES as used herein in reference to natural crude and tar sands only - the proven remaining recoverable reserves of the Province of Alberta.

SEISMICS a geophysical method using the generation, reflection or refraction detection, and analysis of elastic waves in the earth. The instrument employed is the seismograph.

SURVEY STATION a geographical point at which a measurement of some physical parameter is made, i.e. distance, gravity, magnetics.

STRATIGRAPHIC TEST a hole drilled to determine the local stratigraphic (layered) geological section or the position of a key bed.

TAR OR OIL SANDS a mixture of sand, mineral matter, water and crude bitumen; a heavy black asphaltic hydrocarbon, highly viscous and containing sulphur nitrogen and trace metals.

Glossary of Selected Accounting Terms

CONTINGENT LIABILITY an obligation which may arise as a consequence of a future event, the occurrence of which is possible but not probable.

CURRENT ASSETS cash or other assets which will be either converted to cash or used in the conduct of business activities within one year of the balance sheet date.

CURRENT LIABILITIES liabilities which will be liquidated through cash payment or conduct of business activities within one year of the balance sheet date.

DEFERRED CHARGES expenditures which are properly chargeable to income during future years.

DEFERRED INCOME TAXES income taxes which may become payable in future years when expenses (mainly depreciation) claimed for tax purposes become less than those charged for accounting purposes. Provisions for such taxes are made by charges against income during years in which income tax deductions exceed amounts charged for accounting purposes.

DEFICIT the amount by which dividends paid and losses have exceeded net income.

DEPRECIATION a systematic charge against earnings intended to amortize the cost of property, plant and equipment (less estimated salvage values) over the useful life of such assets.

EMPLOYEE OPTIONS options held by certain employees which allow them to purchase common shares at contractually pre-arranged times and prices.

EQUITY BASIS a method of accounting for long-term investments under which an investor records his share of income or losses of the entity in which he has invested by increasing or decreasing the carrying value of the investment.

EXTRAORDINARY ITEMS profits or losses which are not typical of normal business activities and which are not expected to occur regularly over a period of years.

FUNDS current assets less current liabilities.

PAID IN SURPLUS the excess of the consideration attributable to the issuance of shares over the par value of those shares.

PERCENTAGE-OF-COMPLETION a method of accounting which results in the recording of contract profits on the basis of the amount of work the contractor has completed.

REDUCING BALANCE BASIS a method of depreciation which results in depreciation provisions being largest during the initial year of ownership of assets. Subsequent provisions decline progressively each year.

TERM DEBT liabilities payable at times which are more than one year from the balance sheet date.

WORKING CAPITAL current assets less current liabilities. Also referred to as funds in the Statement of Source and Application of Funds.

Aviation

KENTING ATLAS AVIATION

Kenting Atlas Aviation continued to serve its traditional market in freight and personnel transport throughout the Arctic Islands - an area covering about one million square miles of Canadian territory. Ground transport across vast distances and formidable terrain, characterized by mountains and ice is impractical. The division provides fixed wing aviation services and communication facilities to northern residents, petroleum and mining exploration companies and the Canadian government.

The aircraft complement stands at five Twin Otters and two DC-3's. The division is staffed by forty-five employees, and operates scheduled runs from Resolute Bay south to Arctic Bay and Pond Inlet then north to Grise Fjord. The Kenting Atlas Resolute service complex, the only hangar in the high Arctic, has extended the use of the piston driven DC-3 aircraft previously serviced outdoors and unuseable in winter. The availability of a permanent base in the Arctic assures that Kenting aircraft receive maintenance throughout the year.

Pilot of Bell 206-B, CF-PAO, tests release mechanism of "Monsoon Bucket" prior to heading into forest fire zone.

Tony Vanden Brink, Ritchie Rasmussen, General Manager Atlas Aviation and Chief Pilot Mark Brady discuss maintenance performed during major overhaul of Twin Otter CF-KAS.

Kenting's Resolute Bay Hangar is a necessity for the proper maintenance of aircraft in the harsh Arctic climate.

One of Kenting Klondike's helicopters on approach to Petrolia Drilling's Rig 11. Helicopters are, in many cases, the only viable means of northern rig supply.

Aviation (cont'd)

Klondike Helicopters - Arctic Operations

Atlas Aviation - Arctic Operations

KENTING KLONDIKE HELICOPTERS

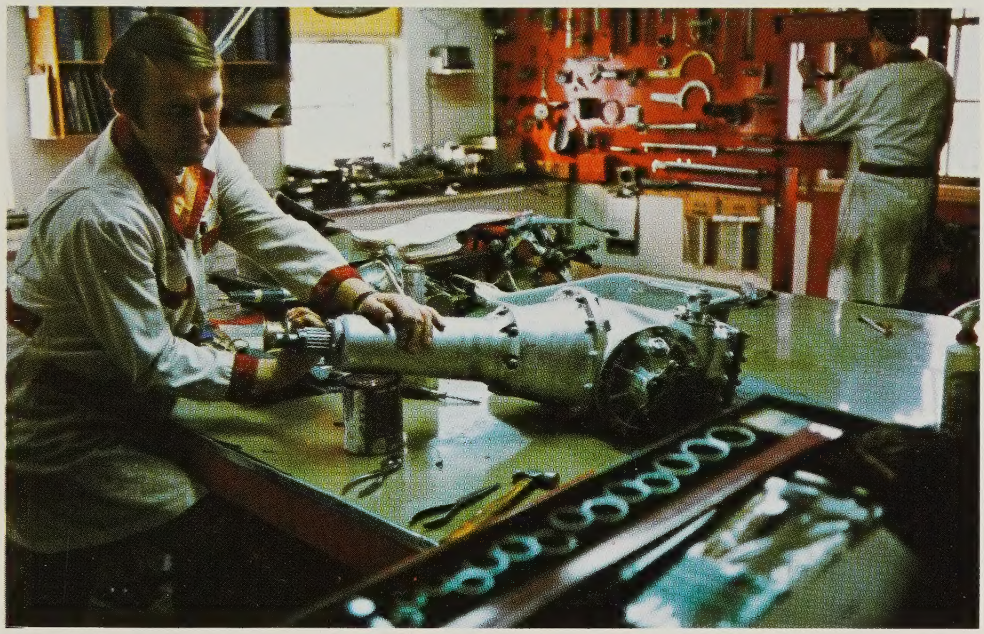
The majority of Klondike's helicopter operations, like those of Atlas, service petroleum, mining and government operations in the Arctic Islands and the Mackenzie Delta.

While many fixed wing air strips are used in the Arctic, a variety of situations exist which require helicopter transport. Typical of Klondike's operations are the evacuation of the sick or injured, movement of equipment, supplies, and personnel to exploration camps and rig sites, and transportation of scientists engaged in wildlife research.

Further south Klondike fought only three major forest fires in the Northwest Territories, northern Saskatchewan and south-eastern British Columbia during an unusually wet summer.

With main hangar facilities in Calgary and a base at Inuvik, the division has a staff of forty.

One of Klondike's two Bell 205-A machines, CF-KHQ on test flight after scheduled maintenance at Calgary base.



Don Peryk and Bob Gardiner reassemble a Hiller FH-1100 helicopter transmission in the Calgary shop. The combination of high maintenance standards and well trained pilots has resulted in a perfect safety record for Klondike during 1973.

Klondike Division Manager Nick Crawford and Maintenance Manager Ken Mizera in Bell 206B.

Ritchie Rasmussen, Mark Brady and Kenting Atlas Dispatcher Eric Rowan arrive in Arctic Bay for a meeting with local residents to discuss their air transportation requirements.

Maurice Lack, Manager of Petroleum Evaluation for Kenting Exploration Services, points out reflections recorded during BayQuest '73.

Ed Anderson Director of Marketing, Doug MacKay Division Manager, Tom Ayley Controller, and John Deacon Director of Engineering, discuss production of topographic mapping programs recently flown by Earth Sciences.

Stereo compiler Bob Desgangne, conducts aerotriangulation procedure for Earth Sciences project in West Africa. The equipment is a Wild A-7 Autograph with digital output.

Geophysics and Aerial Photography

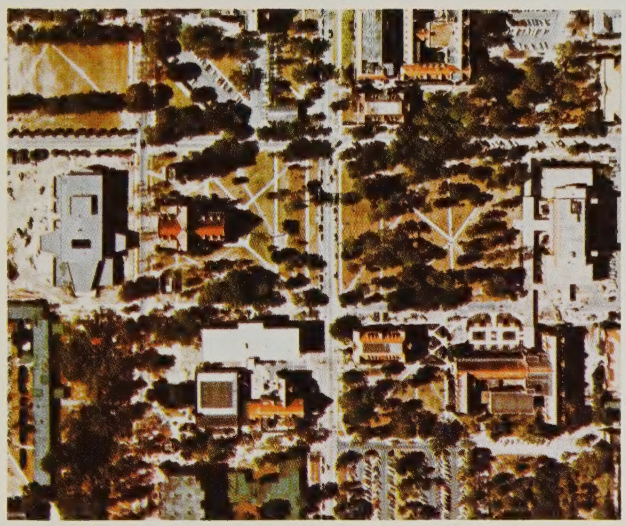
KENTING EXPLORATION SERVICES

Kenting Exploration Services operated under contract to several major and independent petroleum companies during the year. Land seismic crews equipped with the latest generation of digital recording instruments, completed programs in the Arctic, British Columbia and Alberta. Tracked or conventional vehicles are used for transport depending upon the area of operation.

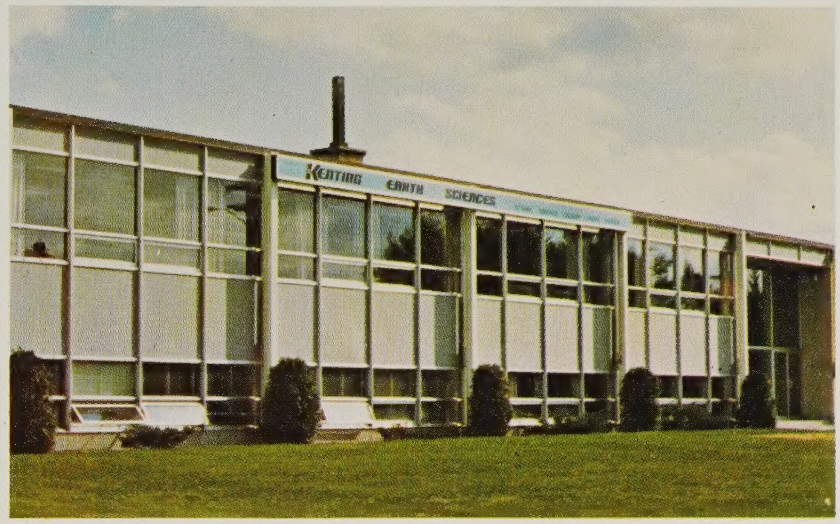
The 1973 marine surveys commenced off the Canadian east coast in Cabot Strait and over portions of the Scotian Shelf. About 1,000 line miles of multi-method geophysical data were recorded for Kenting clients.

Moving from the Atlantic to ice-free Hudson Bay for a successful sub-Arctic participation program BayQuest marine survey crews recorded 1,900 line miles of seismic, gravity and magnetic data in 1973.

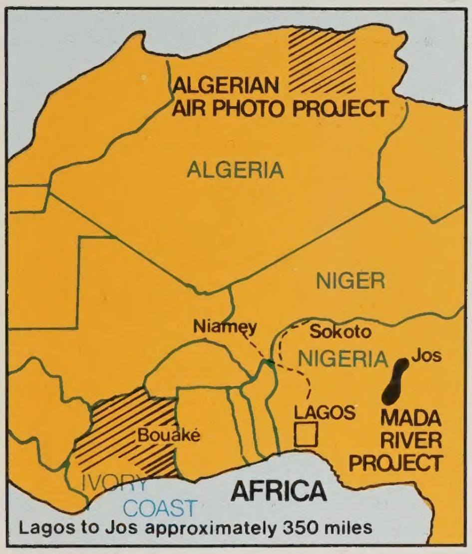
New field acquisition systems used in the Hudson Bay operation and data processing techniques performed in Calgary have shown BayQuest data to contain reflections previously thought unattainable. The data, after delivery to initial subscribers, joins that of previous Quests in the Data Bank where it is available for further sale to industry and government. Data collected



Aerial photographs of urban areas, provided by Kenting Earth Sciences, are used by municipal planners, engineers, and public works departments as changes to transportation routes or zoning by-laws are contemplated.



Kenting Earth Sciences Ottawa office processes airborne geophysical data and airphoto from which are produced the final products - various types of maps.



Location map of Earth Sciences projects in West Africa.

One of the Nigerian villages visited during census verification.

during past seasons provides a steady source of income for the division.

Ground geophysical and engineering marine crews mapped the sub-bottom of Lancaster Sound between Devon and Baffin Islands. Gravity measurements were recorded on Ellesmere Island and potential hydrothermal sites were surveyed in the United States.

Exploration Services is head-quartered in Calgary with a staff of 90 professional and technical employees.

KENTING EARTH SCIENCES

Headquarters and production facilities for Kenting Earth Sciences, the airborne geophysics, mapping and resource studies division are maintained in Ottawa. Branches are located in Toronto, Calgary and Lagos, Nigeria. The division's staff totals 140 professional and technical men and women.

Kenting Africa Resource Services, whose operations are similar to those of the Ottawa group, employs 240 people and is staffed primarily by Nigerians working out of the Lagos headquarters.

Airborne geophysical crews completed several airborne magnetic and electromagnetic surveys in Canada and the United States, one of which covered 30,000 square miles in the Northwest Territories.

Aerial photography is the primary

Geophysics and Aerial Photography (cont'd)

technique in the production of a variety of maps, topographic, land use, and forestry classification. Photographic surveys were flown in the Reindeer Lake area of Saskatchewan for environmental monitoring and in central Quebec in the preliminary investigation for the proposed hydro transmission line, south from the James Bay project.

Eight fixed wing aircraft assigned to air photo and airborne geophysical operations provide the raw data for processing in the division's mapping facility - one of the largest in Canada. Geophysical data is also compiled in Ottawa.

In the Atlas Mountain Region of Algeria, the division flew photo missions covering 50,000 square miles. The survey is the initial step in the Algerian government's plan of Agrarian Reform.

Photo aircraft participated in the most recent census of Nigeria. The new application of aerial techniques is less costly than conventional methods. Nigerian airborne photography is processed through the photo lab in Lagos and sent to Ottawa where maps are compiled from the finished photography.

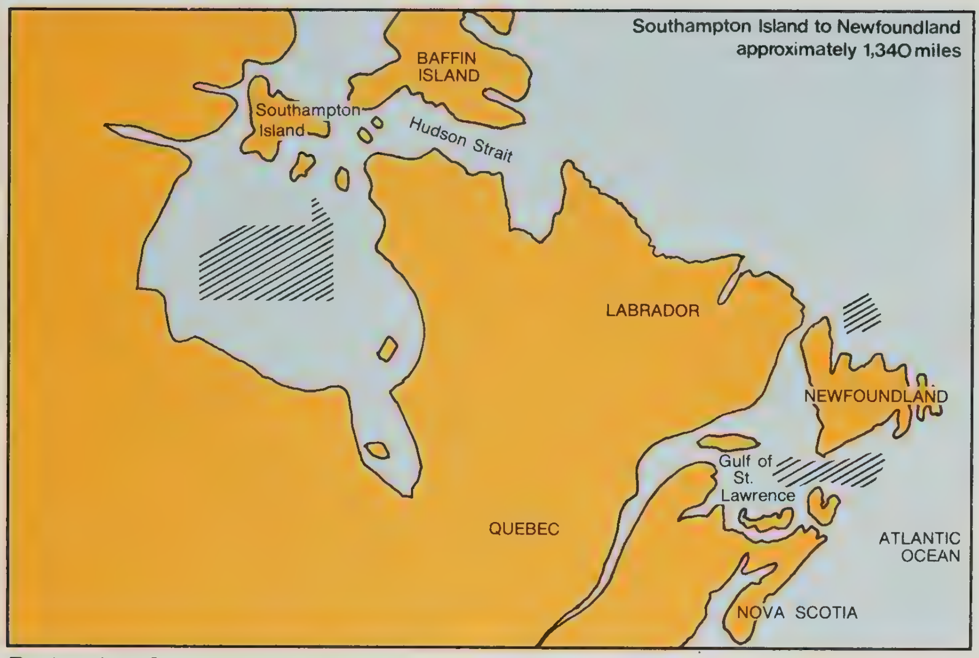
Power generation and flood control investigations, fisheries research, land tenure evaluations, and agro-economic studies are being conducted by Earth Sciences in the Mada River Valley of the Benue Plateau state in Nigeria.

To the west, the city of Bouaké in the Guinea Highlands of the Ivory Coast, is the base for an Earth Sciences' airborne mineral reconnaissance programme. Two survey aircraft will fly a 91,000 square mile area during the project designed to locate mineralized zones. Funding is provided by a Canadian International Development Agency loan to the Government of the Ivory Coast.

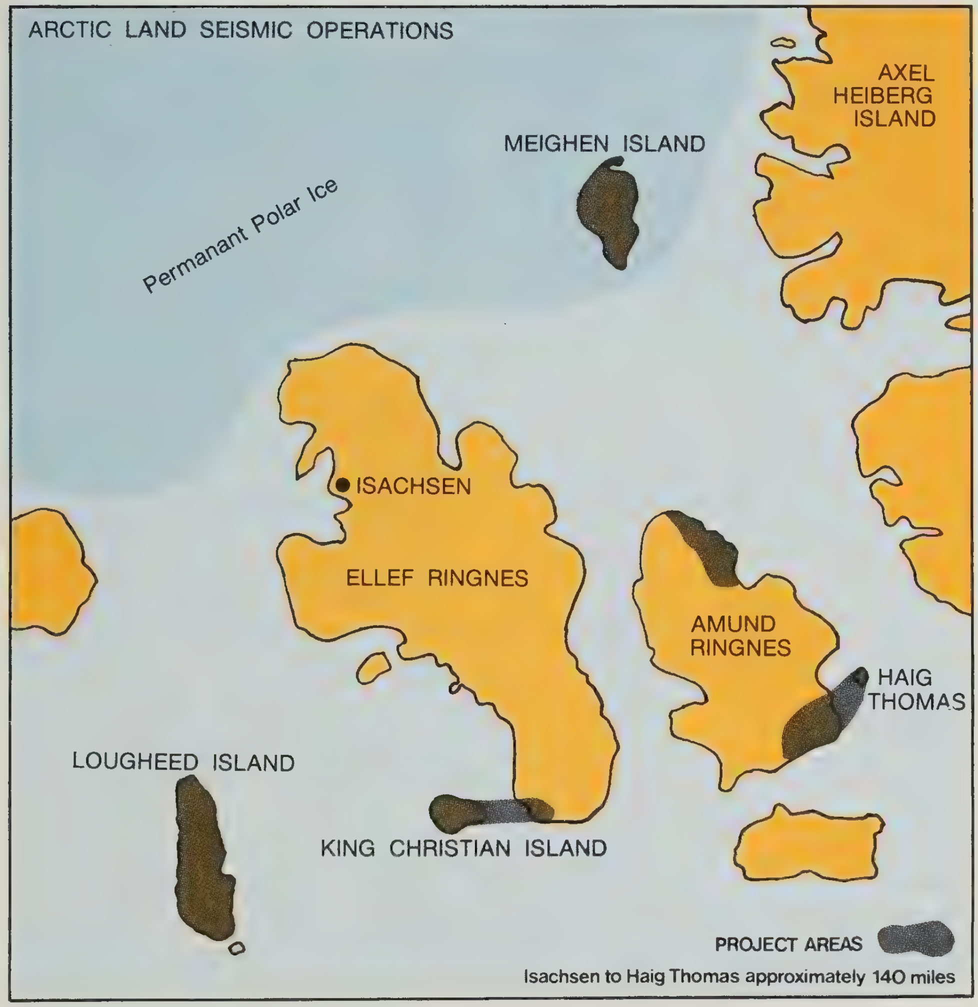
Dr. Jack Wyder, Manager Geosciences Department of Exploration Services, reviews results of a mining geophysical survey with Tony Vanden Brink.

Exploration Services technician Jim Walters, records readings from an Induced Polarization Receiver on a base metal survey programme.

Kenting Earth Sciences' Canso JJG, equipped with the electro-magnetic system designed by the division's engineers, on survey in Eastern Canada.



Exploration Services multi method marine geophysical survey areas.



Kenting Exploration Services geophysical parties shot seismic programmes on several Arctic Islands and over adjacent frozen sea areas.

Exploration Services Division Manager Don Parker and Don Gale, Manager of Sales and Contracts discuss plans for 1974 marine programme.

Technicians examine streamer used in marine seismic survey operations.

Drilling and Construction

KENTING PETROLIA DRILLING

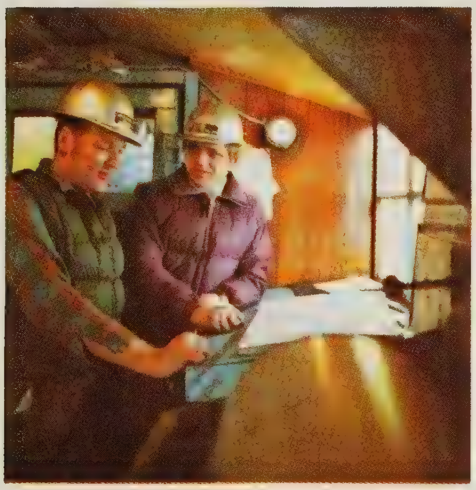
The majority of Canada's proven oil and gas reserves lie in the western provinces, largely in Alberta. Approximately two-thirds of western Canada's potential has been delineated during the past twenty-five years. The remaining, and more difficult to find one-third will be the object of concentrated exploration during the next decade.

Kenting Petrolia has secured a strong position in this market which, perhaps more than any other, will reflect the urgency of western Canadian resource development.

Kenting's drilling capability covers Canadian requirements from depths of 500 feet to 14,000 feet, in the shallow plains, the foothills and the tar sands.

Petrolia maintains facilities located in Calgary and Edmonton, has a complement of eleven oil drilling rigs in Canada and employs a staff of 240 during the peak season. The mix and depth capacities of Petrolia's rigs allow the division to take full advantage of the two most active Alberta drilling areas - the deeper foothills region and the shallow plains in the eastern portion of the province. The Fort Nelson District of northeastern British Columbia was a third active area for the division.

Kenting Petrolia Drilling's rig number 11, drilling a deep well in the foothills near Calgary.



Petrolia Drilling Manager, Walt Ebel and Driller Don Goddard, discuss operations in the "dog house" of one of Petrolia's rigs.

Petrolia's floor men pull pipe out of hole in preparation for a bit change.

Record activity levels were achieved in 1973 when 160 shallow gas wells and 40 medium and deep wells were completed throughout Alberta and in northeastern British Columbia.

In the United Kingdom Petrolia successfully carried out a 15 well drilling program.

KENTING BIG INDIAN DRILLING

Kenting Big Indian is now almost totally involved in drilling related to the development of the McMurray Tar Sands where five of the division's rigs are now located.

Mining drilling also increased with rigs working in the northern United States and in British Columbia.

Soil sampling rig activity expanded during the year. The main area of operation follows the Mackenzie Highway corridor.

For the second consecutive year the division drilled Arctic stratigraphic tests near Ellef Ringnes Island.

The Big Indian office and shop are located in Calgary. Eight truck or track mounted rigs, in addition to 18 heli-portable drills, are operated by 100 employees.

After successfully completing its programme, the DrillArctic Joint Venture is being wound up as there

Glen Mosier Chief Mechanic (Left), Ron Taylor Pipeline Superintendent, and Bud Boyd, District Operations Manager, in Kenting Oilfield's maintenance shop discussing repairs to Barber-Green TA-35 pipeline ditcher.

Main production header manifold at gathering station which gathers production from some forty wells producing approximately 45,000 barrels of crude oil per day was constructed by Kenting Oilfield Services.

Prototype of "Kenting Kleenup" incinerator developed by Oilfield Services in co-operation with Transport Canada and the Research Council of Alberta.

Drilling and Construction (cont'd)

was no immediate requirement for its services.

KENTING OILFIELD SERVICES

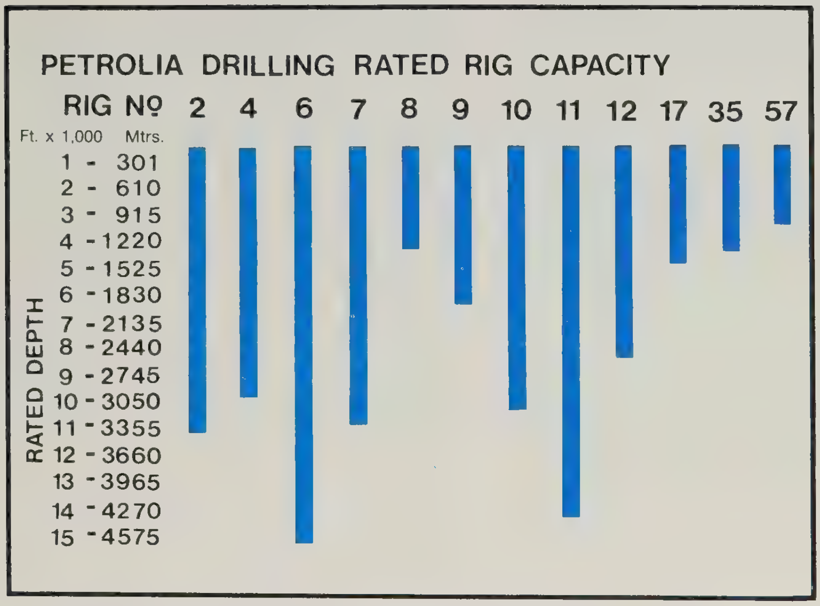
Concurrent with expanding exploration for new reserves, construction to increase flow from existing pools is also being stepped up.

The projects department of Kenting Oilfield Services, responsible for the construction of pumping and compressor stations, completed several contracts relating to secondary recovery methods during the year.

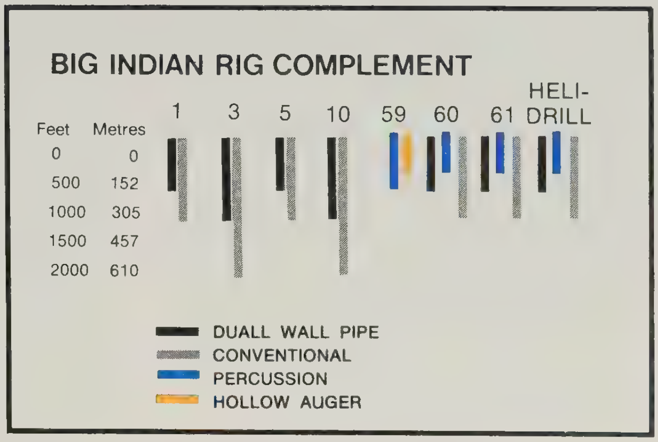
A 140,000 barrel per day fresh waterflood pumping facility was constructed at Redwater. At Wizard Lake, the division constructed a field gate battery and compressor complex, upgraded a section of the gathering system and installed satellite facilities. At Hardisty, construction crews installed all piping for a crude oil storage terminal consisting of 40,000 and 96,000 barrel storage tanks.

The pipeline department laid about one hundred miles of 2 to 12 inch line, the majority of which ranged between 4 and 6 inches. A 30 mile section of miscible flood system in south Swan Hills was completed and a 15 mile stretch of water and oil line was laid in the Cynthia area northwest of Drayton Valley.

The division's district operations are



A rig the size of rig 7 requires 30 truckloads to move to a drillsite, employs a crew of 16 men and requires an average of 30 days to complete a hole of 9000 feet dependant on the geology of the area.

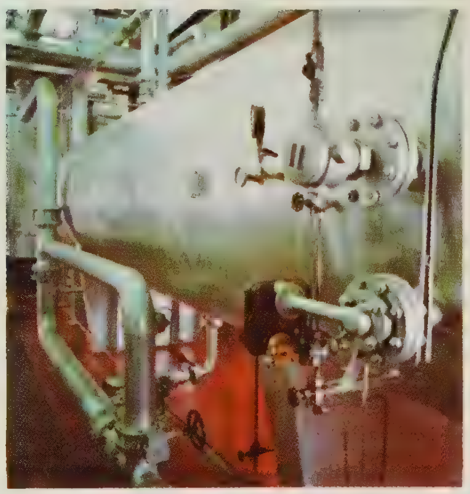


Rigs are either trailer or track mounted or helicopter transportable. A crew of 3 operates all but the heli-drill which requires only two men. Rig 10 is a multipurpose unit drilling with an air water or mud return system. It is typical of those rigs used in tar sands exploration.

Alberta and British Columbia drilling, construction and geophysical activity.

General areas of Petrolia Drilling's activities in the United Kingdom.

Dennis Dennehy Division Manager, Harvey Hanlan Estimator and Customer Relations and Bob McKenzie Projects Superintendent discuss bid drawings for waterflood project.



Horizontal separator in gathering station removes gas produced with oil. Gas is compressed and injected into main gas gathering line. Oil is pumped to Edmonton for refining.

Kenting Big Indian Personnel Manager Bill Semnovich, and Drilling Manager Ron Wilderman, review monthly production figures.

Keith Pederson, partsman, and Technical Enterprise Manager, Jim Swickis, examine a portable runway fixture

Electrician Ralph Falvo, tests solid state technistrobe ST-2M manufactured by Technical Enterprise (Electrical) Limited. Light which flashes 120 times per minute is used as runway centre line assistance for pilots. Beacon is visible to aircraft on approach for 25 - 30 miles.

Drilling and Construction (cont'd)

centred in Edmonton, Wainwright, Lloydminster, Stettler, Rocky Mountain House, and Turner Valley. District superintendents are responsible for providing general roustabout crews for the maintenance of production facilities.

The fabrication shop in the Edmonton headquarters specializes in custom piping and metal fabrication required in many of the division's regular operations. In addition, the shop turned out a prototype of the "Kenting Kleenup" incinerator in co-operation with Transport Canada and the Research Council of Alberta. The project began in 1971 to develop a means of disposal of spilled or waste oil. With recent modifications, the unit has potential both in the oilfield and in the cleanup of beach areas in the event of tanker spills.

The year was marked by continued growth of Technical Enterprise in its business of supplying the Canadian oil industry with custom and standard electrical, hydraulic and pneumatic equipment. It provides its clients with parts and service for various industry required components and has expanded its line of portable airfield lighting to include designs for strips ranging in length from 2,500 to 5,000 feet.

Kenting Oilfield Services, including Technical Enterprise, employs 200 men and women.

Consolidated Statement Of Income

	For the year ended December 31	
	1973	1972
Revenue (Note 11)	**$28,586,281**	$23,418,340
Net operating costs	**22,192,504**	19,567,326
Sales, administration and general expenses	**3,741,270**	2,954,022
Interest:		
Current	**172,776**	37,129
Term debt	**521,723**	311,901
Provision for depreciation (Note 3)	**1,864,362**	2,337,357
Loss (gain) on disposal of property and equipment	**(599,953)**	65,479
	27,892,682	25,273,214
Operating income (loss)	**693,599**	(1,854,874)
Provision for (recovery of) income taxes (Note 6):		
Current	**(222,999)**	86,797
Deferred	**556,695**	(732,887)
	333,696	(646,090)
Income (loss) before extraordinary items	**359,903**	(1,208,784)
Extraordinary items (Note 12)	**(374,931)**	(13,191)
Loss for year	**$ (15,028)**	$ (1,221,975)
Earnings (loss) per share (Note 13):		
Income (loss) before extraordinary items	**$ .50**	$(2.36)
Loss for year	**$(.17)**	$(2.38)

Kenting Limited and Subsidiaries

Consolidated Balance Sheet

Assets

	December 31 1973	1972
CURRENT		
Cash	**$ 253,261**	$ 123,986
Accounts receivable	**6,132,928**	5,422,672
Inventory of materials and supplies, at lower of cost or replacement cost	**701,068**	783,461
Inventory of equipment held for resale, at net realizable value.	**675,184**	—
Contracts and work in progress in excess of billings (Note 2)	**1,080,192**	815,972
Income taxes recoverable	**230,244**	112,702
Prepaid expenses	**155,566**	242,832
	9,228,443	7,501,625
INVESTMENTS IN OTHER COMPANIES AND JOINT VENTURE (Note 1)	**343,506**	392,560
PROPERTY AND EQUIPMENT, at cost (Note 3)	**17,221,591**	16,960,207
Less- Accumulated depreciation	**(8,467,323)**	(7,735,018)
	8,754,268	9,225,189
DEFERRED CHARGES	**16,098**	19,266
GOODWILL (Note 4)	**1,538,851**	1,681,892
OTHER	**40,360**	19,609
	$19,921,526	$18,840,141

APPROVED ON BEHALF OF THE BOARD:

Alexander Birch
Director

S. W. Armstrong
Director

Liabilities

	December 31 1973	1972
CURRENT		
Bank advances, secured by accounts receivable	**$ 438,784**	$ 1,444,120
Accounts payable and accrued	**5,201,594**	4,509,219
Notes payable, secured by equipment	**616,855**	110,645
Contract advances	**396,552**	264,575
Term debt due within one year	**766,260**	1,207,893
Current portion of deferred income taxes	**33,500**	93,401
	7,453,545	7,629,853
TERM DEBT (Note 5)	**5,587,838**	5,862,445
DEFERRED INCOME TAXES (Note 6)	**988,495**	575,896
PROVISIONS FOR ACCRUED COSTS (Note 7)	**702,982**	629,675
	14,732,860	14,697,869

Shareholders' Equity

	1973	1972
CAPITAL STOCK (Note 8):		
4,872 6% cumulative redeemable convertible Class A preferred shares of a par value of $12.50 each (Authorized- 142,000 shares)	**60,900**	68,775
12,000 6% cumulative redeemable Class B preferred shares of a par value of $30.00 each (Authorized- 12,000 shares)	**360,000**	360,000
28,166 6% cumulative redeemable convertible Class C preferred shares of a par value of $33.50 each (Authorized- 150,000 shares, issuable in series)	**943,561**	943,561
773,917 common shares of a par value of 50¢ each (Authorized- 1,000,000 shares)	**386,959**	275,792
PAID IN SURPLUS (Note 8)	**3,545,709**	2,587,579
DEFICIT	**(108,463)**	(93,435)
	5,188,666	4,142,272
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)		
	$19,921,526	$18,840,141

Consolidated Statement Of Source And Application Of Funds

	For the year ended December 31 1973	1972
Source of funds		
Revenue	**$28,586,281**	$23,418,340
Less - Net operating costs (excluding net provisions for accrued costs), sales, administration and general expenses, interest and current taxes	**26,126,985**	22,729,081
Funds from operations	**2,459,296**	689,259
Term borrowing	**566,350**	2,281,335
Proceeds from property and equipment disposals	**1,616,575**	802,520
Issue of common shares upon acquisition of subsidiaries	**—**	100,006
Issue of preferred shares upon acquisition of subsidiaries	**—**	642,061
Sale of common shares for cash, less related costs	**1,061,422**	70,028
Rebate on purchase price of previously acquired subsidiary	**143,041**	—
	5,846,684	4,585,209
Application of funds		
Additions to property and equipment	**2,359,884**	3,467,043
Decrease in term debt	**840,957**	966,082
Extraordinary item relating to termination of Toronto-based aircraft charter operation	**366,928**	—
Dividends paid and payable	**—**	45,707
Other, including investment in joint venture	**375,789**	44,192
	3,943,558	4,523,024
Purchase of shares of subsidiary companies	**—**	1,995,276
Less - Working capital acquired	**—**	403,406
	—	1,591,870
	3,943,558	6,114,894
Increase (decrease) in working capital	**1,903,126**	(1,529,685)
Working capital (deficiency of working capital), beginning of year	**(128,228)**	1,401,457
Working capital (deficiency of working capital), end of year	**$ 1,774,898**	$ (128,228)

Consolidated Statement Of Retained Earnings And Deficit

	For the year ended December 31 1973	1972
Retained earnings (deficit), beginning of year	**$ (93,435)**	$ 1,174,247
Loss for year	**(15,028)**	(1,221,975)
	(108,463)	(47,728)
Less - Dividends (Note 9):		
Class A Preferred	—	4,127
Class B Preferred	—	21,600
Class C Preferred	—	19,980
	—	45,707
Deficit, end of year	**$ (108,463)**	$ (93,435)

Notes To Consolidated Financial Statements

December 31, 1973

NOTE 1 PRINCIPLES OF CONSOLIDATION

The consolidated statements include the accounts of Kenting Limited and its subsidiaries all of which are wholly-owned (the "Company"). The accounts of a Nigerian subsidiary (Kenting Africa Resource Services Limited) have been converted to Canadian dollars at the prevailing official rate of exchange. Working capital maintained in Nigerian funds amounted to approximately $1,113,000 at December 31, 1973. Repatriation of these funds is subject to Nigerian exchange control regulations.

The Company's investment in an unincorporated joint venture (DrillArctic) is carried on an equity basis. The consolidated statement of income includes the Company's share of revenues and expenses of the joint venture. Other investments are carried at cost, less amounts written off.

Certain 1972 figures have been reclassified to conform with the 1973 presentation.

NOTE 2. CONTRACTS AND WORK IN PROGRESS

The Company generally follows the practice of recording income from contracts under the percentage-of-completion method of accounting. Projected losses are provided for in their entirety.

The Company has retained proprietary and sales commission rights to technical data relating to completed geophysical and geological appraisal projects in the Canadian North (Quest Data Library) subject to payment of varying portions of sales proceeds to companies which provided services for the projects. In accordance with the Company's accounting policy the costs of such completed projects have been written off.

NOTE 3. PROPERTY AND EQUIPMENT

	Depreciation rates, mainly	1973	1972
Aircraft and helicopter divisions	9% to 15%	$ 5,954,394	$ 5,865,658
Drilling divisions	9% to 33%	6,229,164	6,735,060
Seismic, geophysical and mapping divisions	9% to 45%	3,761,782	3,213,388
Oilfield construction division	24% to 33%	1,258,751	1,077,087
Petroleum and natural gas interests		17,500	69,014
		17,221,591	16,960,207
Less - Accumulated depreciation		8,467,323	7,735,018
		$ 8,754,268	$ 9,225,189

The above depreciation rates are applied on a reducing balance basis and will amortize costs, less estimated salvage values, over the estimated economic service lives of the respective assets.

The Company considers certain leases of capital property, because of the terms of such leases, to be purchases. The discounted values of future rental and purchase option payments under these leases are included in property and equipment and the related commitments are included in term debt.

Depreciation policy:

The Board of Directors, following a comprehensive review of the depreciation practices of the Company has approved a revised depreciation policy which has been put into effect as of January 1, 1973.

Though much of the Company's previous depreciation policy was considered satisfactory and has been retained, certain modifications have been made to reflect more accurately the estimated economic lives and salvage values of drilling rigs, aircraft, helicopters and certain seismic equipment.

The effect of these changes is to amortize fixed assets over somewhat longer periods. For the twelve months ended December 31, 1973, the provision for depreciation is approximately $463,000 less than would have been reported had the former policy been continued.

NOTE [illegible] GOODWILL

In the opinion of management there is no indication of a reduction in value of Goodwill (the cost of investment in subsidiaries in excess of fair values assigned to identifiable net assets) and accordingly it is not being amortized. Goodwill has been reduced by a $143,041 rebate on the purchase price of a previously acquired subsidiary.

NOTE [illegible] TERM DEBT

		1973	1972
Bank loans, being repaid in monthly instalments of $63,334 commencing July 1974 together with interest at current bank rates, secured principally by floating charge debentures		$ 2,657,491	$ 3,410,832
7½% Convertible sinking fund debentures	(i)	850,000	950,000
6% Debenture, secured	(ii)	1,884,886	1,923,224
Conditional sales agreement, interest rate at 12%, payable in 1974		43,071	217,232
6% Note repayable in January 1977		200,090	200,090
Capitalized lease purchase agreements, secured, terminating at various dates to 1976		552,742	178,142
6% Debenture, secured	(iii)	98,000	98,000
8% Notes repayable July 1974		67,818	67,818
7% Note repayable July 1973		—	25,000
	(iv)	6,354,098	7,070,338
Less - Payments due within one year included in current liabilities		766,260	1,207,893
		$ 5,587,838	$ 5,862,445

(i) 7½% Convertible sinking fund debentures Series A, due May 15, 1980, interest payable semi-annually, requiring sinking fund payments of $100,000 annually from 1974 to 1979 inclusive. Each $1,000 principal amount is convertible into 46 common shares to May 15, 1978 subject to anti-dilution terms and is redeemable at a reducing premium otherwise than out of the sinking fund. Under the terms of the Trust Indenture the debentures are a direct obligation of the Company but are not secured by any mortgage, pledge or charge. Covenants contained in the debenture preclude certain transactions (including the issuance of term debt, the payment of dividends, the sale of certain assets and the reduction of capital stock) unless specific conditions are met.

(ii) 6% Debenture, repayable $53,480 on January 10, 1974 and in eight annual instalments of $250,000 (including interest) beginning January 10, 1975 with payment of remaining balance due January 10, 1983, secured by fixed and floating charges upon the assets of a subsidiary company, Kenting Earth Sciences Limited (formerly Spartan Aero Limited). Accelerated payment terms are provided in the event that the annual net cash flow of that company, as defined in the debenture, exceeds a certain amount.

(iii) The Company has undertaken to convert the outstanding principal balance of the 6% Debenture to common shares on January 18, 1975, the conversion price to be based upon prevailing common share quotations at that time.

(iv) Annual payments due on term debt:

1974	$ 766,260
1975	1,215,543
1976	1,318,189
1977	1,214,561
1978	267,000
Thereafter	1,572,545
	$6,354,098

NOTE 6. DEFERRED INCOME TAXES:

Full provision has been made for deferred income taxes without regard to potential income tax recoveries of approximately $220,000 which may result from the carry-forward of losses (calculated on an accounting basis) of certain subsidiary companies.

NOTE 7. PROVISIONS FOR ACCRUED COSTS:

Provisions are made (by charges to income based upon levels of operating activity) for estimated future liabilities relating to major overhauls of aircraft and helicopters and to costs which are occasionally incurred because of unpredictable major delays in carrying out drilling contracts. Actual costs, when incurred, are charged against the appropriate provision to the extent of that provision.

NOTE 8. CAPITAL STOCK AND PAID IN SURPLUS:

The following table outlines the changes in common shares, Class A preferred shares and paid in surplus during the year ended December 31, 1973:

	Common Shares		Paid in	Class A Preferred Shares	
	Shares	Par Value	Surplus	Shares	Par Value
Balance, December 31, 1972	551,584	$275,792	$2,587,579	5,502	$68,775
Issued:					
In exchange for Class A preferred shares (one common share for each preferred share exchanged)	630	315	7,560	(630)	(7,875)
Under warrants (at $8.50 cash per share)	584	292	4,672	—	—
Upon exercising rights	221,119	110,560	945,898	—	—
Balance, December 31, 1973	773,917	$386,959	$3,545,709	4,872	$60,900

Employee options outstanding at December 31, 1973 are as follows:

3,600 common shares at a price of $9.00 per share exercisable at the rate of 2,800 shares in 1974 and 800 shares in 1975.

Preferred shares:

Class C preferred shares outstanding at December 31, 1973 are as follows- first series- 9,000 shares, par value $301,500; second series- 7,460 shares, par value $249,910; third series- 11,706 shares, par value $392,151.

Preferred shares are convertible into common shares as follows:

Class A to December 31, 1974 and Class C first series to January 15, 1974, share for share. Class C second series to May 1, 1977 on the basis of 2.65 common shares for each share. Class C third series, from January 1, 1983 to December 31, 1987, on the basis of average December, 1982 common share quotations.

Class A, B and C (first and second series) preferred shares are redeemable at annually reducing premiums which do not exceed 5.5% in 1974. Class C preferred shares, third series, are redeemable at par.

The Company has reserved 137,600 common shares for the possible conversion of debentures and preferred shares and the exercise of outstanding options.

NOTE 9. DIVIDENDS:

Cumulative preferred share dividends are in arrears in the amount of $73,327 at December 31, 1973. Under the terms of the 7½% convertible sinking fund debentures cash dividends may not be paid unless working capital exceeds $1,000,000 after such payment.

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES:

To December 31, 1973 the Company had received technological development grants totalling approximately $165,000 from the Federal Government. In the event that a commercially successful product is developed, the grants are repayable.

The Company is obligated under certain equipment and premises lease agreements to pay approximate annual rentals as follows:

1974	$263,000
1975	$234,000
1976	$206,000
1977	$169,000
1978 through 1980	$124,000
1981 through 1985	$ 92,000
1986 through 1988	$ 39,000

The leases can be renewed on various terms and some equipment leases provide for options to purchase.

A claim in the approximate amount of $62,000 has been filed against the Company in connection with an incident involving a Company employee. In the opinion of management, after consultation with counsel, no loss to the Company will result from this claim.

The Company may be required to redeem its outstanding Class B preferred shares on January 15, 1975.

A subsidiary company is contingently liable for a damage claim which might arise from the failure of a sub-contractor to complete certain work. The subsidiary company is adequately indemnified against loss by a major third party (the parent company of the sub-contractor) in the event that such a claim arises.

The Company has guaranteed the repayment of its share of joint venture bank loans, to a maximum amount of $1,066,700. The Company's share of such bank loans at December 31, 1973 amounted to approximately $807,000.

The Company is contingently liable for the usual liabilities of contractors, indeterminate in amount, for completion of contracts.

NOTE 11. REVENUE:

The revenue resulting from the operation of each of the Company's main classes of business, expressed as a percentage of total revenue, was as follows:

	1973	1972
Drilling	38%	34%
Aircraft and helicopters	15%	29%
Oilfield construction	15%	20%
Seismic, geophysics and data sales	32%	17%
	100%	100%

NOTE 12. EXTRAORDINARY ITEMS:

	1973	1972
Expenses relating to termination of Toronto-based aircraft charter operation, net of deferred income tax recovery of approximately $204,000	$(204,240)	$ -
Write-down of investments in other companies	(170,691)	(13,191)
	$(374,931)	$(13,191)

NOTE 13. EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per share figures are calculated using the weighted average number of shares outstanding (562,052- 1973; 535,582- 1972) after deducting preferred share dividend requirements ($80,771- 1973; $53,204- 1972). The assumed conversion of senior shares and debt and exercise of outstanding options would not have a dilutive effect upon earnings per share figures presented.

NOTE 14. REMUNERATION OF DIRECTORS AND OFFICERS:

	1973 Number	1973 Total	1972 Number	1972 Total
Directors	12	$ 22,000	14	$ 19,575
Officers	8	198,614	8	180,844
		$220,614		$200,419

Officers who were also directors: 1973- 5, 1972- 5.

Auditor's Report

To the Shareholders of

KENTING LIMITED:

We have examined the consolidated balance sheet of Kenting Limited and subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and deficit and source and application of funds for the year then ended. Our examination of the financial statements of Kenting Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 29, 1974

Price Waterhouse & Co.

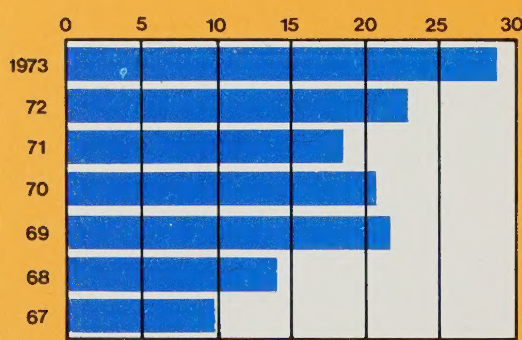
Chartered Accountants

Kenting Limited and Subsidiaries

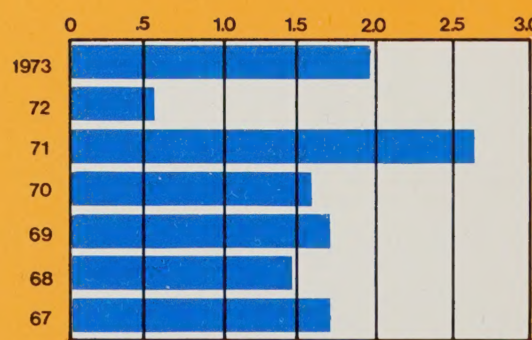
Seven Year Financial Summary

Operating Results (in thousands)

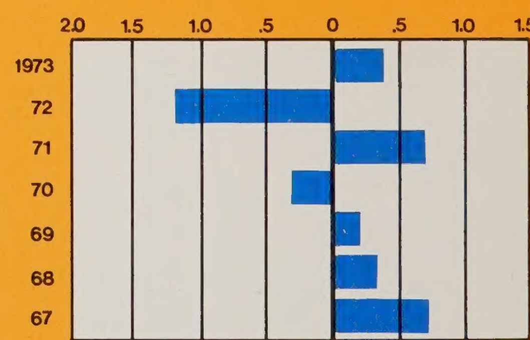
	1973	1972	1971	1970	1969	1968	1967(1
Revenue	**$28,586**	23,418	18,397	20,821	21,419	13,856	9,855
Net operating costs, sales, administration and general expenses	**26,106**	22,559	15,545	18,728	19,182	12,095	7,911
Interest on term debt	**522**	312	243	463	501	277	145
	26,628	22,871	15,788	19,191	19,683	12,372	8,056
Cash flow from operations	**1,958**	547	2,609	1,630	1,736	1,484	1,799
Depreciation, depletion and amortization	**1,864**	2,337	1,337	2,116	1,047	738	613
Loss (gain) on disposal of property and equipment	**(600)**	65	(64)	16	(11)	(52)	(56
	1,264	2,402	1,273	2,132	1,036	686	557
Operating income (loss)	**694**	(1,855)	1,336	(502)	700	798	1,242
Income taxes provided (recovered):							
Current	**(223)**	87	295	(40)	29	110	76
Deferred	**557**	(733)	370	(121)	450	307	422
	334	(646)	665	(161)	479	417	498
Portion of net income of pooled companies applicable to purchase	**—**	—	—	—	—	—	70
Income (loss) before extraordinary items	**360**	(1,209)	671	(341)	221	381	674
Extraordinary items	**(375)**	(13)	(163)	(355)	422	109	68
Net income (loss)	**$ (15)**	(1,222)	508	(696)	643	490	742



REVENUE *MILLIONS OF DOLLARS*



CASH FLOW FROM OPERATIONS (before income taxes)
MILLIONS OF DOLLARS



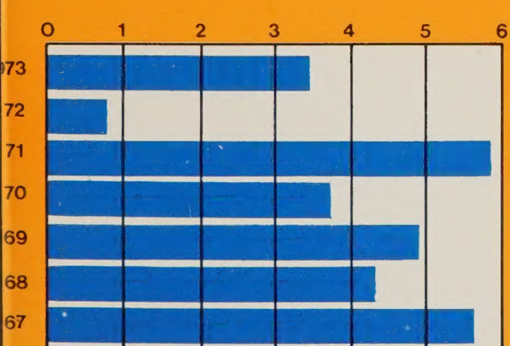
INCOME
(before extraordinary items)
MILLIONS OF DOLLARS

Year End Financial Position (in thousands)

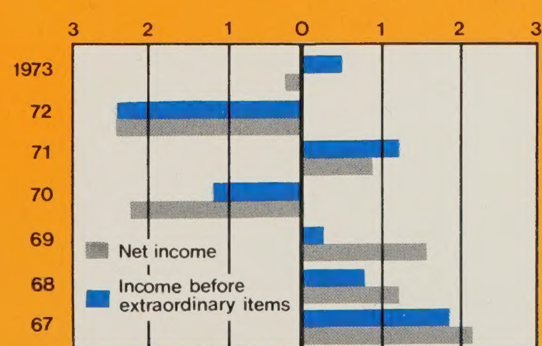
	1973	1972	1971	1970	1969	1968	1967(1)
Working capital	$ 1,775	(128)	1,401	(207)	(241)	1,086	331
Fixed assets, cost	$ 17,221	16,960	12,079	14,404	14,961	10,907	8,561
Accumulated depreciation	$ (8,467)	(7,735)	(6,118)	(5,918)	(4,993)	(4,246)	(3,274)
Net	$ 8,754	9,225	5,961	8,486	9,968	6,661	5,287
Term debt	$ 5,588	5,862	2,215	2,903	4,049	3,710	2,621
Common shareholders' equity	$ 3,824	2,770	3,333	1,945	1,782	1,435	1,115

Earnings Per Share

	1973	1972	1971	1970	1969	1968	1967(1)
Earnings per common share (after provision for preferred share dividends):							
Cash flow from operations	$ 3.34	.92	5.82	3.83	4.92	4.32	5.76
Income (loss) before extraordinary items	$ .50	(2.36)	1.29	(1.23)	.23	.76	1.84
Net income (loss)	$ (.17)	(2.38)	.91	(2.14)	1.54	1.11	2.08
Weighted average number of shares outstanding	562,052	535,582	427,206	389,921	323,044	309,585	286,823
Provision for preferred share dividends	$ 80,771	53,204	121,048	136,106	146,190	146,190	146,190
Fully diluted earnings (loss) per common share:							
Income (loss) before extraordinary items	$ .50	(2.36)	1.12	(1.23)	.45	.71	1.36
Net income (loss)	$ (.17)	(2.38)	.85	(2.14)	1.20	.92	1.49
Dividends per share paid:							
Common	$ —	—	—	—	—	.30	.30
Class A preferred	$ —	.375	1.875	—	.375	.75	.022
Class B preferred	$ —	.90	4.50	—	.90	1.36	—
Class C preferred — first series	$ —	2.01	5.025	—	—	.38	—

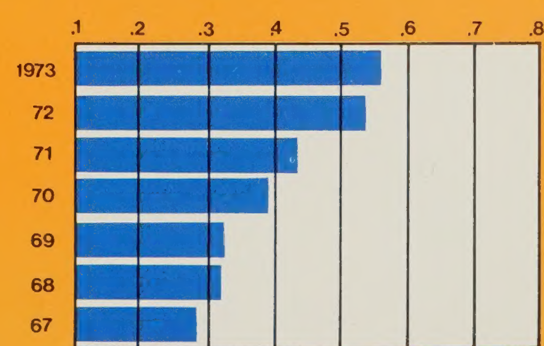


CASH FLOW PER SHARE *DOLLARS*



LOSS | EARNINGS

EARNINGS PER SHARE *DOLLARS*



WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING *MILLIONS*

(1) 1967 is restated to give effect to a 1968 business combination accounted for as a pooling of interests. Income in that year has been reduced by the amount of net income applicable to the purchase portion of a subsidiary company combined on a partial pooling of interests basis.

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